

Pennichuck Water Works, Inc.
Pennichuck Aqueduct Company
Pennichuck East Utility, Inc.

DW 02-126

Pennichuck Water Works, Inc., Pennichuck Aqueduct Company and Pennichuck East
Utility, Inc.'s Response to City of Nashua's First Set of Data Requests

Date Request Received: July 29, 2002
Data Request No.: Nashua Pen 1-8

Date of Response: August 12, 2002
Witness: Donald Ware

REQUEST Please identify any corporate policies of Pennichuck or its subsidiaries pertaining to investment and/or reinvestment in the plant and equipment of subsidiaries. Please provide the guidelines, instructions or forms for such planning activities.

RESPONSE: Pennichuck begins its Capital Improvements Planning process in the fall of each year. The process occurs as follows:

Vice President-Engineering sends a memo to each Department Manager and each member of Senior Management requesting each Department Manager to prepare a draft Capital Improvements Plan (CIP) on the Companies Excel spread sheet. A copy of the initial memo requesting the draft CIP from each Department is attached as Exhibit A. The memo describes the CIP planning process.

2. Once the initial draft budgets are submitted by each Department Manager the Company CFO evaluates the impact of these draft budgets on the Companies cash flows and their impact on the Companies ROE. The Companies Senior managers evaluate the information provided by the CFO and each of the Department Managers to draft a final capital budget for presentation to the Board of Directors. It generally takes three to four rounds of cuts to reach the final draft of the CIP. Projects are prioritized based on their ability to:
 - a. Enhance customer service
 - b. Enhance water quality
 - c. Ensure compliance with the standards of the Safe Drinking Water Act
 - d. Enhance Fire Protection
 - e. Replace aging infrastructure that is affecting the continuity and quality of water service
 - f. Provide operating efficiencies that will result in reduced operational costs
 - g. Provide a Return on Equity that exceeds the Companies regulated rate of return (for non utility projects).

3. The Board of Directors approves the CIP at their January Board meeting. The Board approves the total dollars to be spent for the coming year. Senior Management may add or delete projects from the CIP during the year. New projects may be added without Board approval provided they are less than \$100,000 and they do not result in the total dollars being spent exceeding the approved budget.
4. Each capital project initiated during the year must be approved by Senior Management. The capital project manager must submit a Capital Expenditure form with the project description, need, cost and whether it was budgeted for approval. A copy of the Capital Expenditure Approval form is attached as Exhibit B.
5. A monthly report is run by accounting that shows the projects approved as part of the annual CIP and the status of those projects. The status includes whether a Capital Expenditure form has been filed, how the final dollars requested compare against the budgeted amount and how the costs of the project actually track to the amount requested. A total of dollars expended to date on the CIP is kept at the end of the report so that total dollars allotted to be spent for the year does not exceed the approved budget. A copy of this report is attached as Exhibit C.

Exhibit A

INTEROFFICE MEMO
PENNICHUCK WATER WORKS
From the Desk of Don Ware

To: MA,SD,CS,BH,CC,PG,ML,SG,RP,BR,SC

Date: September 27, 2001

RE: 2002 Capital Improvements Plan/2002 to 2004 CIP

Once again the CIP planning season is upon us. **Please prepare your 2002 Capital Improvements and 2002 thru 2004 Capital Improvements plans and submit these plans to me by Thursday, November 15, 2001.** The submissions should contain a descriptive project name, the anticipated project cost and the time frame of the expenditure. Please complete your 2002 CIP Budget entry on the attached spreadsheet. Simply change the project names and dollars on the 2002 Draft CIP spread sheet to fit your proposed 2002 CIP budget. Insert and delete rows as necessary. Please divide your CIP work into separate plans for PW, PEU and PAC.

Senior Management will review each departments 2002 Draft CIP request once they have been submitted. Senior Management will meet with individual department managers to discuss their budgets on an as needed basis. Based on the initial budget submissions, and meetings with department managers, Senior Management will make recommendations to the Board of Directors relative to the 2002 CIP at the January 2002 Board Meeting. Once the 2002 CIP has been approved, each project will be submitted on a blue project authorization form when the project is initiated.

Please remember to include company overhead for each project submitted. Please use the following overheads:

PW staff	- 40%
PW Materials	- 40%
Outside Contractors and materials	- 8%

If you have questions relative to what is an appropriate overhead for your project please contact Shirley. **Please note that I have added an additional column to the CIP spreadsheet titled Overhead. Please insert the dollars of overhead computed on each job in this column. Note --- The computed overhead should also be included in your monthly and total disbursement numbers.**

On a second note, please prepare your department's 3-year CIP (2002-2004) and submit it with your 2002 CIP. You only need to list improvements that will exceed \$50,000. Please create a short description of each project (similar to those of the existing 3-year plan) as this plan will be submitted to the NHPUC upon its completion. Finally, please attempt to have a basis for the cost of your projected improvements.

Thank you for your time and consideration in this matter. If you have any questions concerning this memo please do not hesitate to contact me at 882-5191.

Don

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Exhibit B

Pennichuck Water Works, Inc.

2002 Capital Improvements Request/Company Expenditures Authorization

Part A: Capital Improvements Budget Request - To be completed by the Project Manager

Work Order Project - ☐ Equipment - ☐

Date: _____

Project Manager: _____

Project Name :

Project Location: ____

Project Description -

Problem Statement -

Check applicable performance measures which will be improved by this project -

Customer Satisfaction - ☐ Equipment Replacement - ☐ Regulatory Compliance - ☐

Customer Growth - ☐ New Technology - ☐ Other - ☐

Project Justification - Cite data quantifying benefits. Discuss any alternatives considered. Show cost-benefit analysis if appropriate.

Attach additional supporting data as necessary

Describe the impact of not completing this project - _____

Expenditure Data

	Approved in Current Budget	Amount Per This Request	Variance Fav (Unfav)
Contractor Cost	\$ 0.00	\$ 0.00	\$0.00
PWW Labor	\$ 0.00	\$ 0.00	\$0.00
Materials Cost	\$ 0.00	\$ 0.00	\$0.00
Equipment Cost	\$ 0.00	\$ 0.00	\$0.00
Overhead Cost	\$ 0.00	\$ 0.00	\$0.00
Total Cost*	\$0.00	\$0.00	\$0.00

*Costs shall incorporate 8% OH for Contractor, Materials and Equipment costs.

* Costs shall incorporate 40% OH for PWW Labor., PWW Materials

Part B: To be completed by Project Manager

Date of Authorization request:

Proposed Start Date : Proposed Completion Date :

E-22 Required - YES ☐ NO ☐ Purchase Order Required - YES ☐ NO ☐

Part C: To be approved by:

VICE PRESIDENT: _____

TREASURER: _____

PRESIDENT: _____

Part D: To Be Completed by Accounting:

G/L Number: _____ W/O Number: _____

Project Used and Useful Date - _____

Actual Project Completion Date - _____

Actual Project Cost - _____ Variance from Request : _____

Percent Variance - _____

Part E: To be completed by Project Manager:

Sign this form. Attach explanation of variance from request if percent variance exceeds 10%

Return to Accounting

Manager Sign off: _____ Date: _____

Unaudited

Pennichuck East Utilities					
Total Engineering:					
Total Operations/Distribution:					
Total Water Treatment Plant:					
Total Pennichuck East Utilities:					
Pennichuck Water Works					
Total Engineering:					
Total Information Systems:					
Total Operations/Distribution:					
Total Water Treatment Plant:					
Total Pennichuck Water Works:					
Pittsfield Aqueduct Company					
Total Engineering:					
Total Operations/Distribution:					
All Companies: Grand Total:					

ORIGINAL	EXPENDED	ESTIMATED	TOTAL	VARIANCE
BUDGET	TO DATE	COST TO COMPLETE	ESTIMATED COST	(UNFAVORABLE)
APPROVED				FAVORABLE

CAPITAL BUDGET STATUS REPORT
COMBINED WATER UTILITIES
FOR PROJECTS APPROVED IN 2002

Pennichuck Water

Exhibit C